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ABSTRACT

This report outlines important features of a new system for managing university buildings in Sweden with an outlook of building management systems in three other Nordic countries. It explores the changes in managing public buildings and real estate that occurred in Sweden and the structure for the ownership of former public properties that followed. System reform is discussed in governing and funding universities in Sweden that stresses governing by goals and objectives, leaving decision making centered at the institutional level rather than at the governmental level. An evaluation of the current Swedish endeavor is presented, followed by brief discussions of the systems in three other Nordic countries: Finland, Norway, and Denmark. Final comments address the most important common feature of these Nordic systems: to separate the management of the buildings from their use. (GR)

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The Changing Infrastructure of Tertiary Education

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Who Should Own University Buildings?

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Introduction

In 1993, a major reform of the governance and funding of universities took place in Sweden. At the same time, the management of public buildings and property went through a radical redesign. The result of these reforms was a drastic change in the administrative landscape in which Swedish universities are operating – a shift of paradigms, if you like. Of course, one must keep in mind that all Swedish universities with one or two exceptions are State universities, but I hope that some aspects at least of the new system may be interesting also for institutions that are privately financed.

I will try to give an outline of the most important features of the new system of managing university buildings in Sweden with an outlook of the situation in the other Nordic countries – Denmark, Finland and Norway – as well. To various degrees, largely according to national conditions, these countries have made, or are in the process of making, changes much in the same direction as Sweden has done. Many Swedish universities have introduced methods of charging departments for the space they use.

The change in management of public buildings

Basically, the government may organise the management of public buildings and real estate in one of the following ways.

1. In the **first**, most centralised model, the planning, construction, maintenance and management of the real estate that the government owns is entrusted to a central authority, acting as an owner on behalf of the State. The authorities that use the space do not pay for it, at least not with convertible money.

2. In the **second** model, the central authority plans and constructs the buildings, which are then handed over to the user authority, which acts as an owner on behalf of the State and has the responsibility for the maintenance and management. The costs for this are included in the grants for the user authority.

3. In the **third** model, the user authority has the responsibility for everything, much as the central authority in the first model, and all costs, including capital costs, are to be covered by the user's grants.

4. In the **fourth** model, the State property is transferred to special real estate companies (or authorities). The user authorities rent their space from these companies, but are at liberty to rent from other property owners if they consider it favourable. Owning and using property are separated on a business-like basis. The rent may be set on market level or calculated from the cost of management, including the rate of return on invested capital which the government may demand.

What happened in Sweden in 1993 was the change from the first to the fourth model. In the old system, the National Board of Public Buildings managed all the civilian property of the State, leasing premises to the user authorities. The user authorities were formally charged a rent made up of capital costs, maintenance costs and consumption of electricity. This rent,

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however, was paid from a special grant, which could not be used for other purposes, so for all practical purposes space could be considered as a free utility.

The National Board was also responsible for the acquisition of premises for the users. If more space was needed, the National Board decided how much and if the needs were to be met by renting or constructing new space, and then leased the space to the university. The user was fully compensated for the extra costs. Of course, this called for a thorough review of the needs if costs were not to soar. The National Board made this review too and proposed to the government which projects should be given priority. All decisions, even on fairly small investments, were made by the government and Parliament.

This system was heavily criticised by the user authorities. The procedure was very slow – normally it took up to five years from the first request from the user's side to the completion of a building, depending on the need for Parliament decisions. The mechanisms for prioritising different needs were far from transparent and therefore the users often had a suspicion of being treated unfairly. In fact, investments in public building were frequently used as a regulator for unemployment or other economical or political purposes. The National Board was also criticised for its rigidity and for being overstaffed and inefficient.

There were also other reasons for a change. The most important one was the change in the public budget and funding system that was implemented at the beginning of the '90s as part of the government's efforts to reconstruct the Swedish economy, which had suffered greatly from the crisis in 1990. The responsibility for using resources in an efficient way was put on the authorities within the budget frames and objectives given to them by the government. The authorities were to determine how much should be spent on personnel, space etc. This meant that space must have a price, and also that the authorities should be free to choose between alternatives when planning space.

In 1991 and 1992, bills were presented to Parliament with proposals of change. The original proposal was to transfer all the public property to one real estate company. All the shares in this company were to be owned by the State. The user authorities were to pay a rent for their premises on a market-like basis. The only exceptions to this were castles, historical buildings and so on which were to remain owned by the State. A new authority was formed – the National Property Board – with the task of managing these properties.

The original proposal was criticised very heavily, mainly by the universities, which were advocating the third model where they would have full responsibility for planning, construction, management and maintenance of their buildings, which were argued to be to a great extent built to purpose and thus did not have a well-defined market value. There was also criticism on the grounds that other special-purpose buildings like prisons and museums would not fit very well into a model with market-like conditions. This criticism led to some changes in the final decision.

To make a very long story very short, today we have the following structure for the ownership of the former public properties:

1. The National Property Board

Authority for management of castles and historical buildings

2. Civitas Holding Ltd

Holding company owned 100% by the State. It in turn owns:
Vasakronan Ltd (100%) – Administrative buildings formerly managed by the National Board of Public Buildings in the major cities in Sweden.
Stenvalvet Ltd (51%) – Buildings in other locations. Partly owned by private investors.
Special Properties Sweden Ltd (100%) – Prisons and other special-purpose properties.

3. Akademiska Hus Ltd ("Academic Houses")
Owned 100% by the State. It owns all university buildings formerly managed by the National Board of Public Buildings.

A number of reasons were given for using the fourth model. The change in the funding system made it necessary to use model 3 or 4, where all costs, even capital costs, show up in the user's budget. There was, however, a strong reluctance to model 3 as it was felt that the user authorities were lacking in expertise of property management and could be tempted to reduce building maintenance in a budget cutting situation rather than to cut down on space.

Also, a company was considered better than an authority, as in financing matters it would not have to go through the cumbersome governmental budget routines which had slowed down the process in the old system.

It should also be remembered that the total space in public buildings in Sweden was about 14 million square metres. The value of the property could be estimated at some 40 billion Swedish crowns or about US$ 5 billion. If this capital could be sold to companies, though themselves owned by the State, the companies would finance the purchase on the ordinary loan market, and the National Debt Office would be relieved by the same amount.

The change in funding system for universities

The system of governing and funding universities in Sweden went through a no less drastic change in 1993. Instead of governing by legal framework and detailed decisions by government for dividing resources among the various educational sectors and faculties, the new system features governing by goals and objectives, leaving detailed decisions to each institution. Resources are allocated to each university, which has the right to divide them further between study programs, faculties and departments.

Another important change is that Swedish authorities are not allowed to use their grants directly for investments. If an investment is needed, e.g. for buying equipment and furniture, the authority has to take out a loan from the National Debt Office. Grants may then be used for paying the capital costs (mortgage and interest). In this way, no investments can be written off directly and every component of the expenditure budget appears as an annual cost.

Each university is given a certain amount of money for every full-time equivalent student. There is a ceiling level for this "student money", as it is called. For research, each university is given a block grant. These grants are paid in one twelfth each month of the year. They are meant to cover all types of costs including costs for premises and the capital costs for loans taken to buy equipment and furniture. The grants are decided upon annually, but there are planning frames set for two more years.

Conclusions about the present situation in Sweden

Swedish universities have an almost total freedom to lease premises. As long as the university can fit the lease costs and capital costs for equipment and furniture in its annual budget, it is at liberty to lease from any real estate owners. The budget boundaries are set by the grants for students and research and, of course, the external funding that the university can get. (At present, the average level of costs for premises in Swedish universities is about 16% of the total annual expenditure.)

The change in system was accompanied by an increase in grants for university education and the founding of a number of university colleges. This was a step taken by the Swedish Government to enhance higher education and reduce unemployment. In combination with the dammed-up demands for space which were a result of the shortcomings of the old system, this has led to a building boom with almost all universities undertaking extensive construction programs. (There have been some signs of "cold feet" from the government vis-à-vis this development.)

For historical reasons, a very great share of the existing premises (although far from all) are leased from Akademiska Hus Ltd. This company has also played an important role in the construction of new buildings, which is quite natural as the ground reserves in most university campuses are owned by this company. It is fair to say that competition is a little weak in this aspect.

On the whole, though, one must say that this formidable system change has turned out to be a success. Anyone working with universities would agree, I believe, that there are few organisations that adapt to administrative changes slower and more reluctantly. After six years of use, I think the new Swedish system has proven to work very well and no one seems to criticise it seriously. Of course, there are suggestions for changes in details. The most important of these seems to be whether the grants for research should be made dependent on output, similarly to the grants based on student numbers.

Naturally, the new system has led to much greater responsibilities for universities and all of them have had to create or expand administrative units working with premises planning, lease negotiations, internal charging of space and so on. This is, however, only a fraction of the manpower that the National Board used for the same purposes in the old system. The number of employees in the new companies are about two thirds of the number of the National Board.

The question of how the rent for university premises and other special-purpose property should be calculated has created great controversy. The universities (and other tenants like museums, prisons, etc.) claimed that there was no market for the buildings they used. The owners argued that market-like rents should be used even though it was hard to find similar objects. The tenants argued that the rent should be based on the value put on the property when the reform was made (less depreciation) and that this was in accordance with the government's intentions in the Bill. The company should get the rate of return on this capital which its owner – the government – demanded from the company. The companies refused this point of view, making lease negotiations a very cumbersome process which was settled only at length. The differences in opinion are still there, leading at times to controversy.

A government committee dealing with these questions supported the universities' standpoint and devised how lease agreements for special-purpose buildings could be set up to satisfy both parties. This report unfortunately has not led to any changes so far.

The other Nordic countries

Finland used to have a system which was very similar to the Swedish one. In 1995, the Finnish National Board of Public Buildings was reorganised and split into the Finnish National Property Board and Engel Ltd. The latter company takes care of maintenance of the buildings. Part of the shares have been sold to private investors. Universities pay rent to the National Property Board, based upon the cost of investment and management. Some universities (e.g. Helsinki) have a maintenance organisation of their own and thus do not rely on Engel Ltd. Universities may rent from property owners other than the National Property Board. This is the case for about 15% of the premises.

In **Norway**, the university buildings are planned and constructed by the government authority Statsbygg but are managed by the universities themselves according to the Lease Regulation. The universities may rent from other property owners. In a bill in Parliament this year, the government has proposed to centralise the ownership of all public property, the special-purpose property (including most university buildings) to be owned by Statsbygg and the rest to be owned by a new company, Statens utleiebygg Ltd. The rent for university buildings is to be calculated on a cost basis.

In **Denmark**, the Ministry of Research constructs and owns the university buildings through the Building Directorate, while the universities are responsible for management and maintenance. A government committee recently presented a proposal to introduce a cost-based rent for university premises, to reorganise the ownership within a new authority with the greatest possible freedom to make businesslike arrrangements and to give universities the freedom to rent from other property owners. The new system is scheduled for 2001.

Final remarks

The changes in systems of management for university buildings in the Nordic countries, although starting from different points (Denmark and Norway from model 2) all seem to lead to variants of model 4. The most important feature is the aim to separate the management of the buildings from the use of them. This leads in turn to the possibility of creating a professional organisation for planning, constructing and managing the property and the necessity of creating a lease agreement between the parties, thus defining the costs and the responsibilities of the tenant and the landlord. The principles for the calculation of rent for special-purpose buildings, and hence the underlying distribution of risk, created a major obstacle in the Swedish system. It seems that in the other Nordic countries (possibly by looking at the Swedish example) one has tried to avoid these problems by letting the special-purpose properties be managed by government authorities rather than companies and specifying a cost-based rent.

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